JOHNSON LAMBERT LLP

Marine Corps Heritage Foundation
and Affiliate

Consolidated Audited Financial Statements
and Other Financial Information

Years ended December 31, 2017 and 2016
with Report of Independent Auditors

Marine Corps Heritage Foundation
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JOHNSON LAMBERT LLP

Report of Independent Auditors

Board of Directors
Marine Corps Heritage Foundation
Triangle, Virginia

We have audited the accompanying consolidated financial statements of Marine Corps Heritage Foundation and Affiliate (the Foundation) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Statement of Financial Position as of December 31, 2017, Consolidating Statement of Activities for the year then ended and Consolidated Statement of Functional Expenses for the year then ended (with summarized amounts for 2016), are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Johnson Lambert LLP

Vienna, Virginia
April 23, 2018

Marine Corps Heritage Foundation
and Affiliate

Consolidated Statements of Financial Position

	December 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 9,874,145	$ 12,516,088
Investments	4,738,805	4,659,632
Accounts receivable	346,969	86,989
Pledges receivable, net	13,199,298	16,741,959
Prepaid expenses	61,978	85,493
Heritage Center, net	86,148,276	48,469,459
Construction in progress	23,801,909	57,484,442
Fixed assets, net	1,170,427	109,074
Cash surrender value of life insurance policies	136,922	136,081
Retirement plan assets	322,351	245,488
Deposits	9,189	9,189
Total assets	$ 139,810,269	$ 140,543,894
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	$ 813,293	$ 3,192,247
Notes payable	14,309,045	9,779,790
Construction retention payable	20,338	1,690,083
Retirement plan liabilities	322,351	400,070
Total liabilities	15,465,027	15,062,190
Net assets:		
Unrestricted net assets	48,688,875	45,680,904
Temporarily restricted net assets	75,132,769	79,277,202
Permanently restricted net assets	523,598	523,598
Total net assets	124,345,242	125,481,704
Total liabilities and net assets	$ 139,810,269	$ 140,543,894

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation
and Affiliate

Consolidated Statements of Activities

Year ended December 31, 2017
(with summarized amounts for 2016)

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016 Total
Revenue, gains and other support					
Contributions	$ 7,034,246	$ 2,242,697	$ -	$ 9,276,943	$ 11,972,117
Museum gift shop income	370,866	-	-	370,866	287,442
Theatre/rifle range revenue	185,375	-	-	185,375	81,417
Other revenue	187,814	-	-	187,814	135,401
Special events	202,830	-	-	202,830	172,669
In-kind support	9,576	84,934	-	94,510	99,588
Interest and dividends	110,045	25,349	-	135,394	168,524
Net assets released from restrictions	6,587,371	(6,587,371)	-	-	-
Total revenue, gains and other support	14,688,123	(4,234,391)	-	10,453,732	12,917,158
Expenses					
Program services - Other	3,426,902	-	-	3,426,902	3,014,066
Program services - Heritage Center depreciation	4,533,208	-	-	4,533,208	3,272,618
Total program services	7,960,110	-	-	7,960,110	6,286,684
Fundraising	2,769,289	-	-	2,769,289	2,457,553
General and administrative	996,608	-	-	996,608	1,201,554
Total expenses	11,726,007	-	-	11,726,007	9,945,791
Change in net assets, before change in fair value of investments	2,962,116	(4,234,391)	-	(1,272,275)	2,971,367
Change in fair value of investments	45,855	89,958	-	135,813	156,999
Change in net assets	3,007,971	(4,144,433)	-	(1,136,462)	3,128,366
Net assets, beginning of year	45,680,904	79,277,202	523,598	125,481,704	122,353,338
Net assets, end of year	$ 48,688,875	$ 75,132,769	$ 523,598	$ 124,345,242	$ 125,481,704

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation
and Affiliate

Consolidated Statement of Activities

Year ended December 31, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support				
Contributions	$ 11,121,611	$ 850,506	$ -	$ 11,972,117
Museum gift shop income	287,442	-	-	287,442
Rifle range revenue	81,417	-	-	81,417
Other revenue	135,401	-	-	135,401
Special events	172,669	-	-	172,669
In-kind support	3,641	95,947	-	99,588
Interest and dividends	147,842	20,682	-	168,524
Reclassification of net assets	-	8,333	(8,333)	-
Net assets released from restrictions	5,215,218	(5,215,218)	-	-
Total revenue, gains and other support	17,165,241	(4,239,750)	(8,333)	12,917,158
Expenses				
Program services - Other	3,014,066	-	-	3,014,066
Program services - Heritage Center depreciation	3,272,618	-	-	3,272,618
Total program services	6,286,684	-	-	6,286,684
Fundraising	2,457,553	-	-	2,457,553
General and administrative	1,201,554	-	-	1,201,554
Total expenses	9,945,791	-	-	9,945,791
Change in net assets, before change in fair value of investments	7,219,450	(4,239,750)	(8,333)	2,971,367
Change in fair value of investments	87,555	69,444	-	156,999
Change in net assets	7,307,005	(4,170,306)	(8,333)	3,128,366
Net assets, beginning of year	38,373,899	83,447,508	531,931	122,353,338
Net assets, end of year	$ 45,680,904	$ 79,277,202	$ 523,598	$ 125,481,704

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation
and Affiliate

Consolidated Statements of Cash Flows

	Years ended December 31, 2017	2016
Cash flows from operating activities		
Change in net assets	$ (1,136,462)	$ 3,128,366
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,660,870	3,320,988
Donated stock	(615,397)	-
Change in fair value of investments	(135,813)	(156,999)
Change in pledges allowance and discount	(285,667)	(141,924)
Bad debt expense	329,551	90,104
Loss on disposal of fixed assets	642	107,553
Changes in operating assets and liabilities:		
Pledges receivable	3,498,777	2,466,543
Accounts receivable	(259,980)	64,819
Prepaid expenses	23,515	2,467
Retirement plan assets	(76,863)	(37,722)
Accounts payable and accrued expenses	(2,314,112)	1,104,263
Retirement plan liability	(77,719)	126,304
Construction retention payable	(1,669,745)	969,529
Net cash provided by operating activities	1,941,597	11,044,291
Cash flow from investing activities		
Additions to the Heritage Center, net*	(8,529,491)	(37,271,560)
Purchases of investments	(4,647,625)	(3,333,435)
Proceeds from sales of investments	5,286,401	18,282,943
Purchases of fixed assets	(1,189,659)	(80,704)
Contributions and investment income restricted for the Heritage Center	(2,185,127)	(655,491)
Net cash used in investing activities	(11,265,501)	(23,058,247)
Cash flows from financing activities		
Contributions and investment income restricted for the Heritage Center	2,185,127	655,491
Principal borrowed on notes payable	4,529,255	9,779,790
Agency funds	(32,421)	(134,892)
Net cash provided by financing activities	6,681,961	10,300,389
Net change in cash and cash equivalents	(2,641,943)	(1,713,567)
Cash and cash equivalents, beginning of year	12,516,088	14,229,655
Cash and cash equivalents, end of year	$ 9,874,145	$ 12,516,088
Supplemental disclosure of non-cash activities		
Construction in progress assets placed into service	*$ 33,682,533*	*$ -*

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation
and Affiliate

Notes to Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Note A - Organization and Summary of Significant Accounting Policies

The Marine Corps Heritage Foundation (the Foundation) was established to preserve and promulgate the history, traditions and culture of the Marine Corps and educate all Americans in its virtues. The Foundation is registered as a non-profit organization in the Commonwealth of Virginia. In 2001, the Foundation commenced raising funds to build the Heritage Center and National Museum of the Marine Corps (the Museum) located in Triangle, Virginia. Ground was broken on Phase I construction in the spring of 2004 and the Museum opened in November 2006. Phase I of the Museum depicts USMC history from inception in 1775 through the Vietnam War.

In 2011, the Foundation initiated a second capital campaign to complete the Museum. Phase II construction was completed in 2017 and included the opening of a Combat Art Gallery, a giant screen theater, administrative office spaces, a children's activity area, and educational classrooms. The Marine Corps is currently working on exhibits for the new galleries that will honor the service of all Marines from the end of the Vietnam War to the current day. The new historical galleries, a Medal of Honor gallery, and a Sports gallery/Hall of Fame are expected to open in phases during the next few years. The cumulative value of the Heritage Center, including the Museum, is reported on the Consolidated Statements of Financial Position in assets and temporarily restricted net assets.

The Foundation provides internships and fellowships for Marine Corps historical projects, sponsors award competitions, and provides program support to the History Division of Marine Corps University and the Museum.

The consolidated financial statements include the assets, liabilities and activities of the Heritage Center LLC (the LLC). The LLC was incorporated in Virginia on June 5, 2006 as a single member LLC, with the Foundation as the member. The LLC's operating agreement with the Foundation authorizes the LLC to operate revenue-producing units in the Museum, which include the Museum Store and other interactive venues. In February 2015, the LLC outsourced its retail operations to a third party vendor, which included an inventory acquisition. The LLC may distribute funds that were generated at the Museum to the Foundation to support the continued development of the Heritage Center and other Foundation programs. The LLC distributed to the Foundation $250,000 and $565,000 in 2017 and 2016, respectively.

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

Principles of Consolidation
The consolidated financial statements include the accounts of the Foundation and the LLC (collectively referred to as the Foundation). Significant inter-company accounts and transactions have been eliminated in consolidation.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Consolidated Financial Statement Presentation
The Foundation reports information regarding its consolidated financial position and activities using three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Basis of Accounting
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, revenues are recognized when earned and expenses when the obligations are incurred.

Use of Estimates
GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Foundation has performed an evaluation of subsequent events through April 23, 2018, which is the date the consolidated financial statements were available to be issued and has considered any relevant matters in the preparation of the consolidated financial statements and notes.

Reclassifications
Certain prior year amounts have been reclassified for comparative purposes to conform with the current year presentation. The reclassifications did not have an impact on the change in net assets or total net assets.

Income Taxes
The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. The Foundation is required to pay federal and state income taxes only on unrelated business income. The LLC is a disregarded entity, and is consolidated into the Foundation for tax reporting purposes. Management has concluded that the Foundation has maintained its tax exempt status and that there are no uncertain tax positions as of December 31, 2017.

Cash and Cash Equivalents
The Foundation considers cash and cash equivalents to include only demand deposits and savings accounts. Certificates of deposit and other short-term, highly liquid investments purchased for its portfolio are treated as investments rather than cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits prescribed by law. The Foundation may hold funds with financial institutions in excess of the FDIC insured amounts; however, the Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Investments and Fair Value Measurement
Investments are recorded at fair value, with interest, dividends, gains and losses included in the consolidated statements of activities. The change in fair value of investments includes gains and losses realized upon sales and unrealized resulting from fluctuations in market values of investments. Gains and losses realized upon sales are calculated using the average cost method. Within the investment accounts, the Foundation maintains a cash balance for future investment purchases.

In accordance with GAAP, the Foundation prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The levels of the hierarchy are as follows:

> *Level 1* – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that the Foundation has the ability to access.
> *Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, for substantially the entire period, for the assets or liabilities and market-corroborated inputs.
> *Level 3* – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Foundation recognizes transfers between levels at the end of the reporting period. There were no transfers between levels during 2017 or 2016.

Risks and Uncertainties
The Foundation invests in various securities. These securities are exposed to a variety of risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amount reported in the consolidated financial statements.

Fixed Assets
Furniture, equipment and leasehold improvements are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated life of 3-10 years for furniture and equipment, while leasehold improvements are amortized over the life of the lease. Expenditures for maintenance and repairs are expensed as incurred; betterments which increase the value or materially extend the life of the related assets are capitalized.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Heritage Center
The Heritage Center consists of the National Museum of the Marine Corps, Memorial Chapel, Semper Fi Memorial Park, Heritage Center Parkway with an overlook, and the Playground. The 2001 National Defense Authorization Act stipulates that the Heritage Center is to be transferred to the United States Marine Corps once all financial obligations have been met which is currently estimated to be 2022. Until the Heritage Center is transferred, net assets will be released as depreciation on the Heritage Center is taken.

These assets are depreciated on a straight-line basis over their estimated useful lives of 20 to 30 years. The Foundation capitalizes costs in accordance with the Foundation's established threshold, while expensing amounts incurred for routine repairs and maintenance.

The carrying value of the Heritage Center is periodically evaluated and adjusted for any perceived impairments in value. The amount of write-downs, if required, is charged to expense in the period the impairment is identified. Circumstances that could have a significant adverse effect on the value of the Heritage Center include a deficit in contributions necessary to maintain the property and fund new construction projects. During the years ended December 31, 2017 and 2016, there were no impairments recognized.

Construction in Progress
Phase II costs associated with USMC post-Vietnam historical exhibit galleries, a Medal of Honor gallery, and a Sports Gallery/Hall of Fame have been capitalized and are included as construction in progress on the consolidated statements of financial position.

Restricted Net Assets
Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions
Contributions and pledges are recorded when the donor makes a contribution or promise to give to the Foundation that is, in substance, unconditional. Foundation-owned life insurance policies are recorded as contributions when received and are carried at their cash surrender value.

Pledges Receivable
Pledges receivable that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Pledges receivable that are due beyond one year are carried at the estimated present value of the future receipts based on their perceived collectability and aged outstanding balance and have been discounted using rates which range from .17% to 2.30%.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Allowance for Uncollectible Contributions
The Foundation has established an allowance for uncollectible pledges. Although variability is inherent in such estimates, management believes that the allowance provided in the financial statements is adequate, but largely dependent on economic conditions. When all collection efforts have been exhausted, the account is written off as bad debt expense.

Notes Payable
Fair value approximates carrying value, due to the interest rate pricing on notes payable. See Note G for information on the notes payable.

Note B - Pledges Receivable

Pledges receivable consist of the following at December 31:

	2017	2016
Amounts due in:		
Less than one year	$ 5,409,546	$ 5,369,551
One to five years	8,180,759	11,933,522
More than five years	451,400	566,960
Total pledges	14,041,705	17,870,033
Less allowance and discount	(842,407)	(1,128,074)
Pledges net of allowance and discount	$ 13,199,298	$ 16,741,959

During 2009, the Foundation received a conditional commitment for $10,000,000 of which, $9,000,000 has been received and recognized as support. The remaining $1,000,000 balance due was recognized as of December 31, 2017 as a result of significant conditions being fulfilled in 2017.

As of December 31, 2017 and 2016, approximately 5.1% and 2.1% of the total pledges receivable, respectively, represent amounts from current Foundation Board members.

Note C - Investments and Fair Value Measurements

The Foundation's total return on investments for the years ended December 31 is comprised of the following:

	2017	2016
Realized gains	$ 2,907	$ 6,706
Unrealized gains	132,906	150,293
Change in fair value of investments	135,813	156,999
Interest and dividends	135,394	168,524
Investment advisory fees	(1,547)	(1,630)
Total investment return	$ 269,660	$ 323,893

Note C - Investments and Fair Value Measurements (Continued)

The following table is a summary of the Foundation's investments measured at fair value within the GAAP fair value hierarchy at December 31:

Class of Security	2017	2016	Fair Value Level
Mutual funds:			
Fixed income funds	$ 2,144,988	$ 2,844,112	Level 1
Balanced index fund	-	951,104	Level 1
	2,144,988	3,795,216	
Exchange traded funds	1,633,720	-	Level 1
Common stock	-	250,611	Level 1
Total investments in hierarchy	3,778,708	4,045,827	
Cash and cash equivalents	827,557	477,863	
Hedge funds	132,540	135,942	
Total investments held at fair value	$ 4,738,805	$ 4,659,632	

The certificates of deposits held by the Foundation, which are included with cash and cash equivalents, do not meet the definition of securities under accounting standards and thus are not subject to the fair value disclosure requirements of GAAP. The Foundation's mutual funds and exchange traded funds are valued based on quoted market prices in active markets and therefore classified as Level 1 securities in accordance with GAAP.

The Foundation's alternative investments consist primarily of two hedge funds (Funds), whose values are derived from the Fund's net asset value. The Foundation may redeem some or all of its shares in the Funds as of the last business day of any calendar quarter. Written notice to redeem all or part of its capital interest must be received by the Funds at least sixty days prior to the date of redemption. Redemptions can be done in increments of $10,000, provided that the greater of $50,000 or twenty percent of the Foundation's initial investment remains in the Funds.

Investments in the hedge funds are typically valued, as a practical expedient, utilizing the net asset valuations provided by the underlying private investment companies and or their administrators, without adjustment, when the net asset valuations of the investments are calculated in a manner consistent with GAAP for investment companies. In accordance with GAAP, the Funds, which are measured at fair value using the net asset value per share (or equivalent) as a practical expedient, have not been classified in the fair value hierarchy.

Retirement plan assets totaling $322,351 and $245,488 at December 31, 2017 and 2016, respectively, consist of mutual funds and equity securities which are classified as Level 1 securities in accordance with the GAAP fair value hierarchy.

Note C - Investments and Fair Value Measurements (Continued)

The Foundation is aware of various split-interest agreements from donors where the Foundation may be listed as the beneficiary of future benefits. The Foundation is not able to obtain sufficient information for the determination of the related assets, liabilities, revenues, and changes in the fair value of the split-interest agreements over the term of the agreements. Accordingly, these are not recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Note D - Fixed Assets

Fixed assets of the Foundation consist of the following at December 31:

	2017	2016
Equipment and software	$ 2,253,168	$ 1,257,037
Furniture and fixtures	285,035	170,144
Leasehold improvements	-	89,227
	2,538,203	1,516,408
Accumulated depreciation	(1,367,776)	(1,407,334)
Fixed assets, net	$ 1,170,427	$ 109,074

Note E - Heritage Center

The Heritage Center consisted of the following at December 31:

	2017	2016
National Museum USMC	$ 87,768,385	$ 60,569,215
NMMC Theatre	15,012,854	-
Semper Fi Memorial park	7,718,903	7,718,903
Memorial chapel	5,874,122	5,874,122
Heritage Center parkway overlook	2,347,504	2,347,504
Heritage Center parkway	1,874,592	1,874,592
Playground	497,137	497,137
	121,093,497	78,881,473
Accumulated depreciation	(34,945,221)	(30,412,014)
Heritage Center, net	$ 86,148,276	$ 48,469,459

Note F - Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets consist of funds to support various programs of the Foundation, including awards and fellowships, educational programs, and the development of the Heritage Center. Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions. Net assets released from restriction were as follows:

	2017	2016
Heritage Center expenses, including depreciation	$ 6,209,909	$ 4,795,029
Support programs	241,722	221,198
Awards	98,612	100,020
Grants and fellowships	37,128	98,971
Total assets released from restriction	$ 6,587,371	$ 5,215,218

At December 31, temporarily restricted net assets consisted of funds available for the following purposes:

	2017	2016
Heritage Center	$ 74,104,293	$ 78,129,075
Support programs	529,618	743,668
Grants and fellowships	498,858	404,459
Total temporarily restricted net assets	$ 75,132,769	$ 79,277,202

Endowment

The amounts classified as permanently restricted net assets in the consolidated statements of financial position represent the Foundation's endowment. The Board of Directors of the Foundation has interpreted Virginia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unless the original agreement states that earnings can be used for unrestricted purposes, endowment earnings are classified as temporarily restricted until such time as they are appropriated for use.

Investment Policy

The Foundation's endowment policy is focused on the preservation of capital and amounts can be invested in equities, mutual funds, fixed income securities and money markets.

Note F - Restricted Net Assets (Continued)

Endowment Fund Composition and Related Activity

As required by GAAP, net assets associated with these funds are classified and reported based on the existence or absence of donor imposed restrictions. The endowment consisted of the following as of December 31:

	2017	2016
Temporarily restricted:		
Grants and fellowships	$ 498,858	$ 404,459
	498,858	404,459
Permanently restricted:		
Grants and fellowships	423,598	423,598
Educational programs	100,000	100,000
	523,598	523,598
Total endowment	$ 1,022,456	$ 928,057

The Endowment's fund activity as of and for the years ended December 31, 2017 and 2016 consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	$ 333,124	$ 531,931	$ 865,055
Reclassifications	8,333	(8,333)	-
Investment income	20,318	-	20,318
Net realized and unrealized gain	68,202	-	68,202
Total investment return	96,853	(8,333)	88,520
Appropriation for expenditure	(25,518)	-	(25,518)
Net assets, December 31, 2016	404,459	523,598	928,057
Investment income	24,893	-	24,893
Net realized and unrealized gain	88,339	-	88,339
Total investment return	113,232	-	113,232
Appropriation for expenditure	(18,833)	-	(18,833)
Net assets, December 31, 2017	$ 498,858	$ 523,598	$ 1,022,456

Note G - Notes Payable

The Foundation entered into a loan agreement with Navy Federal Credit Union on April 13, 2015, which allowed borrowing up to $20,000,000 for use in the construction expansion of the National Museum of the Marine Corps and matures on April 13, 2022. Drawdowns amounted to $4,529,255 and $9,779,790 for the years ended December 31, 2017 and 2016, respectively.

Note G - Notes Payable (Continued)

Interest accrued on the principal unpaid balance of this loan at the rate of 4.00% until April 13, 2017. After that time, interest accrued on the unpaid balance at a rate of 3.50%, which will continue to be accrued until paid in full. During the years ended December 31, 2017 and 2016, total interest costs incurred amounted to $481,292 and $23,322, respectively. Interest incurred during construction of the museum was capitalized. As assets were placed into service during 2017, interest was expensed as incurred.

Note H - Retirement Plans

The Foundation provides a salary deferral arrangement which is qualified under Section 403(b) of the Internal Revenue Code. Employees may begin making elective contributions upon reaching age 21. The Foundation begins matching 50% of the amount deferred by participants after employees complete 90 days of service. Benefits expense for the years ended December 31, 2017 and 2016 was $70,802 and $80,253, respectively.

The Foundation also sponsors a deferred compensation plan under IRC Section 457(b). Eligible employees may elect to have amounts, subject to statutory limits which are annually adjusted, withheld from their compensation and contributed to funds established for the employees' benefit. Deferred compensation assets held by the Foundation under the plan for which the employees are 100% vested total $322,351 and $245,488 for the years ended December 31, 2017 and 2016, respectively. The statements of financial position reflect an asset and corresponding liability, with the investment income and an offsetting expense recorded in the statement of activities.

In 2015, a deferred compensation plan under IRC Section 457(f) was established for certain executives. Amounts totaling $0 and $154,582 have been accrued and are reported in retirement plan liabilities in the statements of financial position as of December 31, 2017 and 2016, respectively. The full amount of the deferred compensation plan as of December 31, 2016 and what was earned in 2017 totaling $251,096, was paid out to the participants of the plan in 2017.

Note I - Commitments

Operating Leases
During 2012, the Foundation entered into a non-cancelable operating lease agreement for office space in Dumfries, Virginia, which expired on December 31, 2017. Rent expense for the years ended December 31, 2017 and 2016 was $144,534 and $146,929, respectively.

Retail Operating Agreement
The Foundation entered into a lease and operating agreement with a third party provider (Provider) to conduct museum gift shop operations beginning February 2015. The agreement is for an initial term of six years with the ability to renew for an additional five-year term.

Note I - Commitments (Continued)

Retail Operating Agreement (continued)
The agreement stipulates that the Provider will pay both a fixed and variable rent. The fixed rental income, referred to as the base rent is $3,452 per month for the right to use the premises for purposes of retail concessions. The variable rental income is based on a percentage of gross receipts of sales on a three tiered basis, excluding any sales taxes, returns and other items as designated per the contract. The three tiers are: 15% of gross receipts up to $2,000,000; 20% of gross receipts between $2,000,000 and $2,500,000; and 25% of gross receipts greater than $2,500,000. Lastly, the Provider is to make a capital investment between $80,000 and $100,000 for improvements to the retail premises within the initial term of the agreement and between $50,000 and $75,000 within the first 24 months of the renewal term.

The agreement contains a clause that requires the Foundation to purchase directly from the third party provider any branded inventory that is not saleable should the agreement be terminated. As of , the Foundation has no intentions to terminate the agreement.

Note J - Allocation of Joint Costs

The Foundation conducted activities which incurred joint costs for the distribution of direct-marketing fundraising appeals and program information. Total joint costs of $1,934,357 included allocated amounts of $348,184 to program services and $1,586,173 to supporting services for the year ended December 31, 2017. Total joint costs of $2,001,676 included allocated amounts of $460,385 to program services and $1,541,291 to supporting services for the year ended December 31, 2016.

Note K - In-Kind Support

In-kind support received by the Foundation is recorded at fair value and is reflected in the consolidated statements of activities as in-kind support and within each of the functional expense categories benefited (general and administrative, fundraising and program). Total in-kind support consisted of the following for the years ended December 31:

	2017	2016
Unrestricted in-kind support:		
USMC publications and research	$ 7,153	$ -
Other professional services provided	2,425	3,641
	9,578	3,641
Temporarily restricted in-kind support:		
Google grant award for advertising	34,128	95,947
Legal services provided by a board member	40,004	-
Phase II construction roofing services	10,800	-
	84,932	95,947
Total in-kind goods and services	$ 94,510	$ 99,588

Marine Corps Heritage Foundation
and Affiliate

Consolidating Statement of Financial Position

	December 31, 2017			
	Foundation	Heritage Center, LLC	Reclassifications & Eliminations	Total
Assets				
Cash and cash equivalents	$ 9,751,676	$ 122,469	$ -	$ 9,874,145
Investments	4,738,805	-	-	4,738,805
Investment in LLC	1,146,148	-	(1,146,148)	-
Accounts receivable	278,912	68,057	-	346,969
Pledges receivable, net	13,199,298	-	-	13,199,298
Due (to) from Foundation	-	(14,616)	14,616	-
Prepaid expenses	55,605	6,373	-	61,978
Heritage Center, net	86,148,276	-	-	86,148,276
Construction in progress	23,801,909	-	-	23,801,909
Fixed assets, net	136,368	1,034,059	-	1,170,427
Cash surrender value of life insurance policies	136,922	-	-	136,922
Retirement plan assets	322,351	-	-	322,351
Deposits	9,189	-	-	9,189
Total assets	$ 139,725,459	$ 1,216,342	$ (1,131,532)	$ 139,810,269
Liabilities and net assets				
Liabilities:				
Accounts payable and accrued expenses	$ 743,099	$ 70,194	$ -	$ 813,293
Due to (from) LLC	(14,616)	-	14,616	-
Notes payable	14,309,045	-	-	14,309,045
Construction retention payable	20,338	-	-	20,338
Retirement plan liabilities	322,351	-	-	322,351
Total liabilities	15,380,217	70,194	14,616	15,465,027
Net assets:				
Unrestricted net assets	48,688,875	1,146,148	(1,146,148)	48,688,875
Temporarily restricted net assets	75,132,769	-	-	75,132,769
Permanently restricted net assets	523,598	-	-	523,598
Total net assets	124,345,242	1,146,148	(1,146,148)	124,345,242
Total liabilities and net assets	$ 139,725,459	$ 1,216,342	$ (1,131,532)	$ 139,810,269

Marine Corps Heritage Foundation
and Affiliate

Consolidating Statement of Activities

	Year ended December 31, 2017						
	Foundation Unrestricted	Foundation Temporarily Restricted	Foundation Permanently Restricted	Foundation Total	Heritage Center, LLC	Reclassifications & Eliminations	Total
Revenues, gains and other support							
Contributions	$ 7,007,446	$ 2,242,697	$ -	$ 9,250,143	$ 26,800	$ -	$ 9,276,943
Museum gift shop income	-	-	-	-	370,866	-	370,866
Theatre/rifle range revenue	-	-	-	-	185,375	-	185,375
Other revenue	8,231	-	-	8,231	179,583	-	187,814
Special events	-	-	-	-	202,830	-	202,830
In-kind support	9,576	84,934	-	94,510	-	-	94,510
Interest and dividends	109,212	25,349	-	134,561	833	-	135,394
Net assets released from restrictions	6,587,371	(6,587,371)	-	-	-	-	-
Total revenue, gains, and other support	13,721,836	(4,234,391)	-	9,487,445	966,287	-	10,453,732
Expenses							
Program services - Other	2,734,955	-	-	2,734,955	691,947	-	3,426,902
Program services - Heritage Center depreciation	4,533,208	-	-	4,533,208	-	-	4,533,208
Total program services	7,268,163	-	-	7,268,163	691,947	-	7,960,110
Fundraising	2,769,289	-	-	2,769,289	-	-	2,769,289
General and administrative	996,608	-	-	996,608	-	-	996,608
Total expenses	11,034,060	-	-	11,034,060	691,947	-	11,726,007
Change in net assets, before change in fair value of investments and LLC distribution	2,687,776	(4,234,391)	-	(1,546,615)	274,340	-	(1,272,275)
Change in fair value of investments	45,855	89,958	-	135,813	-	-	135,813
LLC net earnings	1,076,260	-	-	1,076,260	-	(1,076,260)	-
Change in net assets before distribution	3,809,891	(4,144,433)	-	(334,542)	274,340	(1,076,260)	(1,136,462)
LLC distribution	250,000	-	-	250,000	(250,000)	-	-
Contribution (expense)/revenue	(1,051,920)	-	-	(1,051,920)	1,051,920	-	-
Change in net assets	3,007,971	(4,144,433)	-	(1,136,462)	1,076,260	(1,076,260)	(1,136,462)
Net assets, beginning of year	45,680,904	79,277,202	523,598	125,481,704	69,888	(69,888)	125,481,704
Net assets, end of year	$ 48,688,875	$ 75,132,769	$ 523,598	$ 124,345,242	$ 1,146,148	$ (1,146,148)	$ 124,345,242

Marine Corps Heritage Foundation
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Consolidated Statement of Functional Expenses
(with summarized amounts for 2016)

	Year ended December 31,				
	Program services	Fundraising	General and administrative	2017	2016
Accounting and auditing	$ 42,010	$ 23,605	$ 12,694	$ 78,309	$ 71,380
Advertising	100,944	-	34,128	135,072	181,556
Awards	21,158	-	-	21,158	20,792
Bank charges	1,612	-	12,674	14,286	15,736
Bad debt	-	329,551	-	329,551	90,104
Consulting	180,769	202,976	-	383,745	410,516
Credit card fees	30,247	23,019	23,019	76,285	70,320
Depreciation	106,916	13,490	7,256	127,662	48,370
Depreciation - Heritage Center	4,533,208	-	-	4,533,208	3,272,618
Direct marketing	348,185	1,237,988	348,184	1,934,357	2,001,676
Dues and subscriptions	6,971	395	338	7,704	9,200
Educational support	119,922	-	-	119,922	136,422
Facilities development	113,381	-	-	113,381	208,452
Gifts	-	-	883	883	2,214
Insurance	99,910	-	25,006	124,916	98,012
Interest	171,112	-	-	171,112	-
Investment fees	-	-	1,547	1,547	1,630
Loss on disposal of assets	-	-	642	642	107,553
Maintenance	96,497	105,100	29,596	231,193	144,578
Marketing	45,673	31,078	-	76,751	69,482
Meetings	1,495	56	34,619	36,170	41,425
Museum and historical support	275,326	-	-	275,326	174,092
Museum expenses - LLC	31,695	-	-	31,695	30,776
Office expense	30,437	8,234	35,627	74,298	19,857
Postage and shipping	844	7,792	5,007	13,643	15,426
Printing	1,827	8,255	-	10,082	7,695
Professional fees	48,145	33	5,257	53,435	11,441
Rent	46,642	62,090	35,802	144,534	146,929
Salaries, taxes, and benefits - Foundation	798,634	666,530	368,347	1,833,511	1,836,432
Salaries, taxes, and benefits - Museum, History Division, and Band Support	369,842	-	-	369,842	297,064
Special events	177,603	-	-	177,603	160,249
Staff training	2,567	435	3,000	6,002	6,496
Taxes and licenses	10,132	15,849	1,222	27,203	23,536
Telephone and utilities	102,706	7,226	9,708	119,640	118,921
Temporary help	-	21,470	736	22,206	34,424
Travel	8,687	3,422	621	12,730	6,806
USMC Support	3,000	-	-	3,000	3,093
Website and internet	32,013	695	695	33,403	50,518
Total	$ 7,960,110	$ 2,769,289	$ 996,608	$ 11,726,007	$ 9,945,791